

## MEDIA RELEASE

Friday, 15 August 2008

### AUSTRALIAN REPORT EXPOSES PSYCHOLOGICAL TRICKS USED TO MARKET CREDIT CARD LIMIT INCREASES

A landmark report released today by the Consumer Action Law Centre has exposed the different psychological manipulations used by banks and other lenders to persuade people to take up offers for higher credit card limits.

The first report of its kind in Australia, *Congratulations, You're Pre-Approved!* examines actual, unsolicited letters sent to customers by banks, store card providers and other lenders encouraging the customer to take up a "pre-approved" offer to increase the limit on their existing credit card.

Dr Paul Harrison, Senior Lecturer in consumer behaviour and marketing at Deakin University, and principal researcher of this report, said that the report confirmed what was already known – that banks and credit providers are using psychological manipulations to persuade, encourage, or convince customers to take up a credit card limit increase, often against their better interests.

"Companies have to maximise their profits, so it's hardly surprising that banks and credit providers use all the tools available to them to increase the likelihood that current customers will take on more credit," Dr Harrison said.

"We found that lenders frame their letters in various ways to make it more likely customers will not really think too hard about taking on more debt and just accept the limit increase.

"For example, the letters trigger the natural human instinct to trust "experts" – in this case experts who have already determined you can afford a limit increase.

"They also indicate that the customer has been chosen to receive a "limited" offer, and make sure the customer feels like they already "own" the limit increase, triggering well-known psychological factors such as scarcity, loss-aversion and the endowment effect.

"The letters also use positive words and especially avoid the word "debt". Sometimes they include warnings, but the warnings are in much smaller print and can't counter-act the strength of the other messages."

Ms Nicole Rich, Director – Policy & Campaigns, Consumer Action Law Centre, said that, at best, credit providers were misguided by using such warnings in their letters while, at worst, they were being disingenuous to their customers and to governments, trying to avoid action to stop them using bad marketing practices by pointing to the "help" they give customers in their letters

"The report shows that it is wrong to rely on simply giving more information to consumers to help them make informed choices," Ms Rich said.

"We need to force lenders to implement some psychological "breaks" in the credit card limit increase process, for example, by making customers nominate their own choice of a higher limit and provide information about their current income and debts.

"It is also time to consider if unsolicited, pre-approved credit as a marketing strategy should be banned."

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